Maritime Goods Movement Coalition

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Context

- Focus on air quality and public health impacts of goods movement
- Funding mechanism to ensure mitigation of goods movement sector impacts
- Program designed to encourage participation by major sources, many not subject to state or local control

Context – Why We Need a Comprehensive Goods Movement Air Quality Strategy

- We need a comprehensive air quality strategy for the ports and goods movement sector because:
  - Sector sources contribute disproportionately to air pollution and to local public health impacts
  - The region cannot attain the new ozone or fine PM standards (or demonstrate "reasonable further progress") without regulating this sector
  - Without such a strategy, sector growth will be stymied or significantly delayed by project-by-project CEQA challenges
  - Significant infrastructure investments will likely be delayed or prevented without such a strategy (e.g., due to CAA sanctions, conformity failures, CEQA challenges or political opposition)

Why a Comprehensive AQ Strategy?

- A comprehensive AQ strategy would permit the state to integrate otherwise piecemeal legislative and regulatory activities:
  - Port Leasing Policies
  - CARB Rulemaking
  - Governor's GMAP
  - State Legislation
  - SCAQMD Rulemaking
- Piecemeal measures will be extraordinarily costly and will likely restrict growth and employment

MGM Coalition Mission

- Develop an integrated AQ plan with the following characteristics:
  - Contribute to attainment of the ozone and fine PM air quality standards
  - Address material local health impacts
  - Provide for lowest-cost solutions
  - Provide flexibility in designing solutions
  - Improve goods movement efficiency
  - Protect goods movement economy
  - Encourage investment in the sector
  - Secure the time needed to make necessary investments
  - Avoid costly and time-consuming project-by-project battles

Proposal

- **Integrated, Attainment-Based Plan**
  - *Integrated* air quality attainment plan for the maritime goods movement sector
  - Tied to attainment dates for 8-hour ozone (2021-24) and the new fine PM (2015) standards
  - Plan would constitute the "state implementation plan" for the sector
- **Market-Based Performance Program**
  - Optimize for lowest cost subject to local health priorities
  - Set performance targets and timetables
  - Allow sources to comply with performance targets by designing their own strategies
  - Early actors generate tradable credits
  - Sources that fail to meet performance path must hold offsetting credits or pay "safe harbor" fee
  - Infrastructure improvements that reduce goods movement impacts could generate tradable credits

Proposal (continued)

- Growth-Loaded Plan
  - By incorporating projected growth and identifying air quality mitigation in advance, the MGM Plan should streamline CEQA review of specific conforming projects
  - Project impacts would be evaluated relative to the plan's emissions and risk performance targets
- Prioritize Public Health Benefits
  - Identify sources and locations of greatest exposure
  - Accelerate, pre-certify and, if appropriate, weight strategies that address target emissions
  - Encourage early reductions (credit generation) at higher-risk locations, defer credit use at such locations until risk benchmarks met

Key Areas of Controversy:
1. Allowance-Related Risks

- Allowance risks
  - Potential Problems:
    - The program could fail to meet *environmental* goals if too many allowances (i.e., credits) are issued.
    - The program could fail to meet *economic* goals if participants comply by reducing activity instead of emissions.
  - Proposed Remedies:
    - Use an open market design, by which participants generate credits only by reducing the emissions rate of the regulated activity, or
    - If a closed market is preferred, then provide a mechanism (e.g., auction) for issuing more allowances if activity levels exceed expectations.

"Open" vs "Closed" Market Design

- Emissions = AL x EF
  - AL – activity level (e.g., kilowatt hours, brake horsepower hours, fuel consumed)
  - EF – emission factor, or rate
- *Closed* markets allow credit when the product of AL and EF is negative (i.e., reductions below the cap).
  - Participants comply either by reducing AL or EF, or both.
- *Open* markets allow credit only when there is a reduction in EF.
  - Participants comply either by meeting the declining EF or by purchasing credits.
  - Credits can only be generated by reducing EF below the standard or by achieving reductions early.
- Periodic Program Adjustments in Open Market Systems
  - Because open market credit programs do not cap overall emissions, emission performance standards (i.e., the EF) are set based on projected activity levels (similar to traditional SIP planning). Depending upon actual economic activity, the program would be adjusted periodically to assure that overall emissions goals are met.

Key Areas of Controversy:
2. Local Impacts of Trading

- Risk of not delivering local benefits:
  - Potential Problem:
    - Trading could result in a deferral or avoidance of emission reductions at locations where risk reductions are most needed.
  - Proposed Remedy:
    - Design the market program to ensure local benefits as follows:
      - Identify zones of higher risk due to sector emissions ("target zones");
      - Prohibit deferral of controls by sources that drive risk within target zones (i.e., one-way trading in target zones);
      - Pre-certify credits for emission reductions in target zones so as to attract and accelerate investment there;
      - Provide annual accounting to track emissions and risk reduction in target zones

Key Areas of Controversy:
3. "Pay to Pollute" vs "Make Polluters Pay"

- Risk that participants will pay the "safe harbor" fee rather than reduce emissions.
  - Potential Problem:
    - Under the program, a source could just pay a fee in lieu of reducing emissions.
  - Potential Solution:
    - The fee ensures that sources that cannot reasonably reduce emissions or obtain credits can still operate. The fee is used to obtain offsetting emission reductions. Example: single visit vessels.
    - Setting the "safe harbor" fee at a price higher than the current credit price in the market ensures that the program will create a continuous incentive for efficiency and for reducing emissions, as sources will seek ways to avoid paying the fee.

Implementation Timeline

- Near term (12 months)
  - Accelerated Investment in High-Impact Areas
    - Develop credit-generation protocols for select categories (e.g., cargo handling equipment, trucks, auxiliary engines)
    - Allow generation, sale and banking of credits
  - Develop 10-20 year performance standards and timetable for program
- Longer term
  - Develop joint powers authority or clarify entity / agency jurisdiction to ensure full integration
  - Implement full market